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NATIONAL INTELLIGENCE DAILY CABLE

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National Intelligence Daily Cable for Monday, May 16, 1977.

The NID Cable is for the purpose of informing senior US officials.

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USSR: Sluggish Industrial Production

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The Soviet industrial sector may be heading for a second consecutive year of sluggish growth. Last year's growth was the slowest since World War II; another poor year in 1977 could dampen Soviet hopes for achieving even the modest growth goals of the 10th Five-Year Plan.

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Official statistics recently released by the USSR for the first quarter of 1977 lead us to estimate that industrial output in the civilian sector grew by only 4.3 percent over the same period last year. This slight improvement over last year's increase of 4 percent may be attributed to a rebound in the production of industrially processed food after a decline last year. Although overall food output turned up in the first quarter, meat production remained below the comparable period of 1976.

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Balanced against the acceleration in food production is the continued slowdown in the growth of production in the industrial materials sector. Growth in energy producing branches--fuels and electric power--fell to an all-time low of 3.5 percent. This, in turn, may prevent recovery in the steel and cement industries--two intensive energy users currently experiencing production difficulties. Indeed, a recent editorial in *Trud* has cited shortcomings in the supply of electric power and fuel as a cause of insufficient cement production.

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Soviet leaders also must be concerned by the 1-percent drop in steel production--a performance which bodes ill for any boost in the growth of machinery output later in the year. The overall lackluster performance in the output of industrial materials probably reflects a failure of new plants to produce at designed capacity and delays in introducing new capacity.

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Even the machinery sector--usually a star performer--did not measure up to Soviet expectations. Civilian machinery, which posted a seven-year low growth in 1976, sank even lower during the first quarter of 1977, chiefly the result of a drop in the growth of consumer durables.

25X1 [] The output of producer durables kept pace with last year's growth. The production of instruments and computers, agricultural machinery, and equipment for the food industry increased. Unless the output of ferrous metals rebounds substantially in the next few months, however, by year's end even the growth of producer durables may fall below last year's rate.

EGYPT-USSR: Bilateral Relations

25X1 [] *Egyptian Foreign Minister Fahmi announced on Saturday that Cairo has accepted a Soviet invitation to discuss bilateral relations. Fahmi said he would meet with Soviet Foreign Minister Gromyko on June 9 and 10 "somewhere in Europe."*

25X1 [] Fahmi took a generally conciliatory line in his prepared remarks to the Egyptian parliament; he characterized the Soviet move as "constructive." He again criticized Soviet activities in Africa, however, and labeled the Soviets' recent strong demarche over Libya a "mistake."

25X1 [] Both sides appear to want improved relations because they anticipate the Geneva peace talks will resume later this year. The Egyptians' primary concern, as President Sadat indicated recently, is that the Soviets might decide to play an obstructionist role in the negotiations.

25X1 [] Sadat would thus like to mute Soviet-Egyptian differences before negotiations; he apparently hopes to encourage Moscow to take a positive role in Geneva. []

USSR: Scheduled Central Committee Meeting

25X1 [] *The Soviet party Central Committee may meet soon.*

[] A Yugoslav diplomat in Moscow has informed the US embassy that the plenary session is scheduled for next Sunday--the Central Committee, however, has not held scheduled meetings on Sunday. There are also reports that the Warsaw Pact foreign ministers will meet in Moscow about the same time.

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[] Soviet Foreign Minister Gromyko recently told the US ambassador that he must be back in Moscow no later than Saturday evening. The foreign minister will meet with Secretary Vance this week in Geneva. Gromyko would attend both the plenum and the foreign ministers' meeting. []

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AFRICA: Multiracial Policy in Natal

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[] *The Natal provincial government in South Africa is pushing for greater freedom in multiracial affairs at the local level, but the central government seems unlikely to agree to any request to relax its strict apartheid policies.*

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[] The Natal Provincial Council has asked Prime Minister Vorster to allow it and the three other provincial governments to run local affairs on a multiracial basis. The Natal council, which is dominated by the English-speaking United Party, has also requested that Vorster discuss the council's recent motion asking for a province-wide local government that would allow cooperation between black and white areas.

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[] Under this plan, the national government would retain responsibility for foreign affairs, defense, post and telegraph, railways, and general agricultural matters; the provincial administrations would have autonomy in other government functions, including racial matters.

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[] The Natal leaders believe that if Vorster rejects their request the government may be throwing away the last opportunity to deal with blacks who are still willing to negotiate. Blacks outnumber whites by nearly five to one in Natal, and the local Indian community is larger than the white one. The United Party leaders believe that for the whites to survive in Natal there must be more consultation and cooperation among the races.

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[] They also realize that with sections of Kwazulu, the Zulu homeland, slated for eventual independence and geographically scattered throughout the province, local laws will be almost impossible to administer unless blacks and whites can agree on a uniform set of regulations. The United Party in the province also wants to run its own show as free as possible from interference by the Afrikaner-dominated government.

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[] Though they have not been consulted about the details of the proposal, both the Zulu leader, Chief Buthelezi, and the local Indian leader had voiced cautious approval of the plan before it was presented to the South African government.

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[] Natal leaders have made it clear that they are not attempting a deliberate confrontation with the government. They justify their proposal as completely consistent with government policies recently announced both in the African Homelands Autonomy Bill now before parliament and in the government's proposals for the multiracial Turnhalle conference in Namibia.

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[] The leaders thought they detected some hope for progress along racial lines when Vorster stated last month that he did not object in principle to a multiracial consultative body in Durban, one of three multiracial local advisory groups that has evolved in Natal during the past two years.

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[] The scope of the present proposal is so far-reaching, however, that the government probably will reject it outright as contrary to its theories of separate development. Pretoria has not officially responded to the proposal, but the minister of finance, an English speaker who once belonged to the Natal United Party, branded the initiative an attempt to secede from South Africa and the beginning of "black majority rule."

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[] The government may not respond officially for some time, however, and could choose to avoid pronouncing on the issue by appointing an investigative commission, as it has done on past similar racial questions. []

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SPAIN: Election Preparations

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[] The recent announcement that many of Spain's numerous legal parties have formed coalitions to contest next month's parliamentary election has somewhat simplified the complex electoral picture. Only 5 of the 18 coalitions have nationwide appeal; they are likely to dominate the election. The decision of major party leaders to run in Madrid, rather than in the relative safety of their home provinces, will give the election in the capital considerable symbolic value and permit personalities to dominate the race.

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[] Prime Minister Suarez' decision to run at the head of the list in Madrid of the Union of the Democratic Center gives this center-right coalition a boost that will most likely enable it to win a plurality--with 30 to 40 percent--of the vote. Suarez' popularity has been enhanced by favorable press reaction to his speech announcing his candidacy as well as to his meetings with top US officials.

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[] The Democratic Center coalition faces various problems. Suarez' decision to head its list and the dominant role of his representative Calvo-Sotelo in drawing up the list led to sharp disputes over relegating some prominent centrists to run in their native provinces. In addition, the choice of some names linked to the Franco regime may result in the election of conservatives less committed to reform than Suarez.

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[] Suarez furthermore has the disadvantage of being responsible for maintaining order during the pre-election period. Demonstrations by Basques, who are demanding the release of the remaining political prisoners in Spain, led to several deaths over the weekend. If the government does not release the prisoners, more violence may occur and radical Basque groups might boycott the election. Recent police brutality in controlling demonstrations has called attention to Suarez' inability to reform the police. Several labor unions have called a general strike today to protest police brutality.

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[] The Democratic Center must also share the centrist votes with another coalition of several Christian Democratic factions. This alliance is led by Joaquin Ruiz Gimenez and is known for its opposition to the Franco regime. This group refused to join the Democratic Center because the latter organization contains too many groups of varying ideologies that would not remain together after the election. Nevertheless, the Christian Democrats have agreed to run joint lists with the Democratic Center in some provinces. The Christian Democrats could win around 8 to 15 percent of the votes.

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[] The Democratic Center must contend on the right with the Popular Alliance led by the well-known former minister Manuel Fraga. Although he favors moderate reform, Fraga has thrown in his lot with a number of rightist groups headed by former ministers under Franco. This group is raising the alleged

threat to order by the legalized Communist Party and will play up any pre-election disorders to draw conservative votes. Latest estimates give this group 15 to 24 percent of the votes.

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[] The Socialist Workers Party of Felipe Gonzalez, which has the support of West European socialist and social democratic parties, represents the democratic left. It may obtain 15 to 21 percent of the vote. The second conference of socialist parties of Southern Europe, held in Madrid on May 7-8 and attended by French Socialist leader Mitterrand, Portuguese Prime Minister Soares, and other Western socialist leaders, gave the Spanish party some of the publicity it desires.

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[] The remaining significant party is the Spanish Communist Party headed by Santiago Carrillo. He espouses a "Euro-communist" moderate line but is handicapped by his widely publicized involvement in a massacre during the Spanish Civil War. It is estimated the party will receive only 5 to 10 percent of the votes. []

PERU: Government Talks

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[] //Peruvian President Morales Bermudez is holding talks with party leaders that could further his plan to return the country to civilian rule by 1980. Any transfer of power will be gradual, and Peru's uncertain economic situation could delay its implementation.//

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[] //Last month military leaders expressed their confidence in Morales Bermudez by extending his presidential term beyond the date early next year when he was to retire from the military. Since then the President reportedly has been discussing a return to representative government with a wide range of political parties.//

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[] //Besides conferring with the Christian Democrats and the Socialist Popular Action, both of which support his government, Morales Bermudez also has met with Victor Haya de la Torre's American Popular Revolutionary Alliance--the Peruvian army's principal antagonist. Last Friday he was scheduled to meet with the Peruvian Communist Party and the Popular Action of former president Belaunde, who was overthrown by a military coup in 1968.//

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[REDACTED] //During these exploratory talks, the parties are setting forth their views on presidential, parliamentary, and municipal elections. A civilian advisory group reportedly also has been working with the government to formulate political strategy, draw up an agreement with the parties, and prepare a new constitution. It is not clear at present how far the ruling military is prepared to go in granting popular sovereignty.//

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[REDACTED] //In addition to mollifying the military government's domestic and foreign critics by demonstrating at least a semblance of movement toward civilian rule, these consultations also are likely to provide Morales Bermudez with additional civilian political support for the stiff austerity measures necessary to right the Peruvian economy. Such support could also help to keep the President's potential rivals in the military at bay.//

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[REDACTED] //Morales Bermudez' economic program is threatened by a disagreement between his key economic advisers and some military leaders over budget cuts demanded by the International Monetary Fund as a prerequisite for badly needed foreign loans.

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ZAMBIA: Threat of Rhodesian Attack

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[REDACTED] *Zambian President Kaunda, in an address to the nation today, will warn that the country is threatened by an attack from Rhodesia. Zambian Foreign Minister Mwale has informed diplomats that Rhodesian Prime Minister Smith is threatening to launch pre-emptive strikes into Zambia on the pretext that*

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Joshua Nkomo's Rhodesian nationalist forces are preparing to use Zambian territory to stage an offensive. Reflecting concern over the threat, Zambia has taken a number of precautionary steps to improve its defenses.

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[redacted] Mwale told the US embassy in Lusaka that the Rhodesians had passed the threat to Zambia through British officials, who he criticized for acting as intermediaries for the "rebel" Smith government.

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[redacted] //Kaunda has long been concerned about possible strikes into Zambia in response to Zambian support for the Rhodesian nationalists. His fears probably are greater now because Zambia's involvement in the war effort has increased in recent months. Despite Smith's threat, however, Kaunda retains a strong interest in Rhodesian settlement negotiations and the upcoming round of consultations by British and US officials.//

[redacted]

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UK: Pay Talks Continue

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[redacted] //Negotiations between the British Labor government and the Trades Union Congress on the terms of a third year of wage restraint are unlikely to produce an agreement until the

last minute, if at all. In an apparent effort to give impetus to the talks, Chancellor of the Exchequer Healey warned last week that failure to get a new agreement would mean an early election that would bring the Conservatives to power.//

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[] //For the past several weeks, government ministers have been stumping the country arguing the case for continued wage restraint. They have stressed that the prize for breaking the back of inflation would be greater than the short-term burdens the workers must continue to bear.//

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[] //It is proving to be a difficult--if not an impossible--task to persuade trade unionists to begin another year of restraint in August because real wages have declined recently. Unions representing skilled workers, moreover, are pushing strongly for a return to free collective bargaining because previous curbs have compressed carefully structured wage differentials between craftsmen and unskilled labor.//

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[] //The engineers' union, the country's second largest, has voted to end pay restraint. The union might be willing to reconsider if government and union negotiators are able to come up with a satisfactory proposal on a third round to be voted on at a special Trades Union Congress meeting perhaps this summer. Other unions, particularly the miners and those representing white collar workers, are likely to opt for a return to free collective bargaining when they hold their annual conferences between now and July.//

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[] //Some cabinet ministers reportedly have argued that with so much opposition to a new agreement, it would be fruitless to try to impose a further period of restraint.//

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[] //Without a "phase three" agreement, however, the Labor government would have a difficult time remaining in power. Strains would grow between the government and the unions, which are demanding an increase in the money supply and a big boost in public spending. The absence of an accord probably would undermine foreign confidence in sterling. Because labor costs account for about 40 percent of total production costs, a substantial wage increase would severely worsen short-term inflationary prospects.//

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[REDACTED] //The fear of precipitating an election before Labor's policies have had an opportunity to produce some solid signs of economic recovery will probably induce Prime Minister Callaghan to make concessions in areas other than wages to obtain union agreement to further restraint. The most likely concessions would involve tighter price controls and a reflationary mini-budget in the fall. The Labor government currently is recommending the establishment of permanent price controls to replace the price code which expires this July. [REDACTED]

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